



Weekly Market Comment

10 March 2017

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The Chancellor's spring Budget: still waiting for a cure?

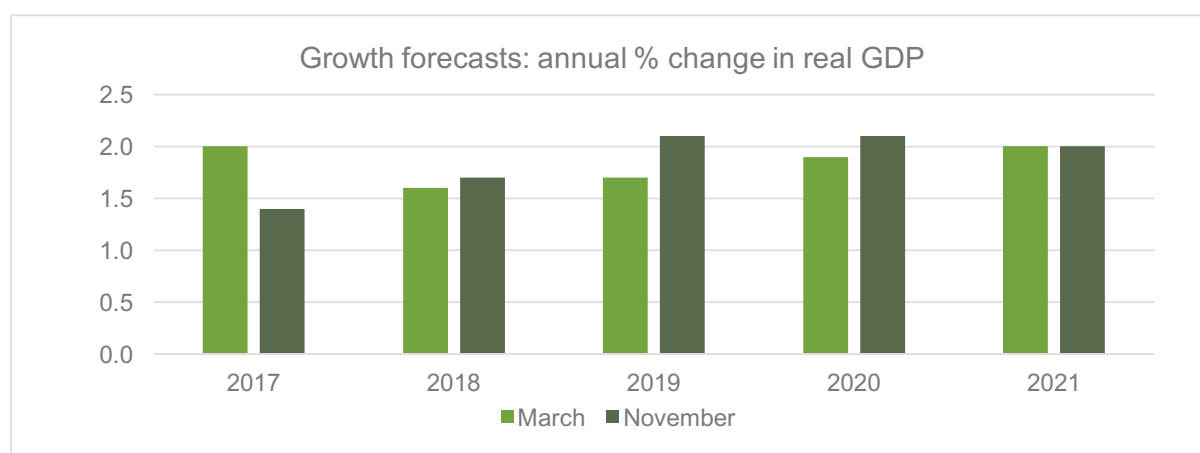
The financial commentary surrounding this week's Budget was largely neutral to positive. At some point in the near future, however, economists might question the Chancellor's approach to this first spring Budget. Notwithstanding the continuing uncertainty around Brexit and the tentative nature of economic growth in the UK, this may prove to be a missed opportunity to improve the resilience of the economy ahead of the potential challenges on the horizon.

Market reaction to the Budget was generally muted, with marginal declines across the main indices, perhaps a reflection of the fact that the main themes were widely trailed in advance of the Chancellor's statement. Indeed, the small decline (0.06%) in the FTSE 100 appeared to be related more to the weight of individual stock movements (e.g., BT and Foxtons), than the content of the Chancellor's statement.

The OBR's (Office of Budget Responsibility) latest economic data and forecasts provided the backdrop for the Chancellor's statement. In short, the OBR revised up the more immediate forecasts of economic growth (2017), reduced the longer term forecasts (2018-2021), and revised down the economy's likely future borrowing requirement (see below).

The Chancellor's Budget statement was clearly more influenced by the longer-term growth forecasts and the potential effects of Brexit than by the current uptick in growth.

Office of Budget Responsibility: Revised Economic Growth Forecasts



Source: Tatton/OBR, March 2017

As we have previously said, balancing the books in the current environment will be difficult. Therefore, the current Chancellor's abandonment of his predecessor's fiscal mandate – reaching a budget surplus in 2019/20 – is understandable, as is the relatively measured approach to this budget (no significant developments). However, given that the economy is still forecast to grow, albeit steadily, we believe that the current deficit will become more manageable.

Also, given that consumer spending and aggregate demand is facing inflationary headwinds and is set to tail off in 2018 and beyond, the Chancellor might have considered mitigating some of these challenges by means of targeted fiscal intervention. Moreover, by not acting or setting out some initial positive fiscal measures, the Chancellor appears to be signaling that future risks to the UK economy - from Brexit and otherwise - are skewed to the downside.

Indeed, the Chancellor's broad policy intentions were well reported before his actual statement - continued budgetary restraint ahead of a formal Brexit to ensure the Government 'has something in the armoury should it be needed at a later date'. While markets acknowledge the economic prudence of the Chancellor's approach, they will of course seek to price-in the Chancellor's prudence and future downside risk for the UK economy. For example, £-Sterling fell a further 0.5% to \$1.213 on Wednesday — its weakest level against the US dollar since January — before modestly trimming losses to trade 0.4% lower. Of course, £-Sterling may simply have been weighed down by a simultaneous rally in the \$-dollar.

As the OBR and economic consensus suggests, weaker growth is expected from 2017 (relative to the updated and more positive forecast for 2016), with higher inflation also eroding any wage gains and impacting prices. We believe fiscal policy targeting higher tax receipts, whether income or consumption related, are likely to prove counter-productive in the current economic climate.

We did not expect any material changes to fiscal policy and did not foresee the Chancellor's proposed changes to NICs (national insurance) for the self-employed, or the relatively small levels of relief offered on future business rates. The latter is already of considerable concern to the UK business community, while the former generated a political (and public) backlash. We expect both of these fiscal measures to weigh down on business enterprise at a time when the economy is forecast to enter a slowdown (2018/19).

Some of the Chancellor's proposals relating to skills, education and productivity are cost-effective and credible (if they can be quickly and effectively implemented). Similarly, the proposed injection of £2bn into (adult) social care is welcome; this will be tapered over 3 years and is intended to relieve some of the pressure on the NHS and hospitals. There were also a number of other important changes announced in the budget – for example, changes to the tax allowances on dividends and potential tax incentives for the (North Sea) oil and gas sector. However, it was not a Budget designed to stimulate the wider economy.

Some commentators have argued that the Chancellor's budget cannot affect, or make much difference to, the key issues facing the UK economy and financial markets - the global recovery, the Brexit process, the response of consumers to higher inflation and further depreciation of £-Sterling. In our view, this is not entirely accurate. To the extent that fiscal policy can and does alter consumer and business behaviour (and in the short-term, currencies), there is much that could be done in the Budget to help ready, steady and/or steer the economy.

As it is, the Chancellor elected for an approach that might be described as "stable" (and by some as fiscal conservatism). We believe the Chancellor is basically constrained by short-term economic uncertainty and long-term debt. While it is understood that fiscal loosening in the context of economic uncertainty and slowing growth may appear unconventional, the recent and current economic climate is anything but conventional.

Furthermore, the OBR's and other economists' forecasts are effectively unchanged and clearly indicate a relative slowdown between 2018 and 2021. It could therefore be reasonably argued that more fiscal intervention is required now in order to prevent or mitigate the effects of a possible slowdown and to help underpin the economy as it prepares for Brexit.

We recognise that fiscal policy is not the only issue. The UK economy is facing significant challenges over the short-term and, until it has successfully navigated through Brexit, it will be in uncharted waters.

The UK economy may well continue to be buoyed by the economic developments around the world, e.g., continued growth in the US and signs of a sustained recovery in the EZ. And, given recent history, average annual growth of ~1.8% per annum is not to be dismissed. We assume the medium-term macroeconomic outlook for the UK is, at best, stable; albeit with scope for marginal upside, should the Bank of England decide to ease policy in the face of an abrupt slowdown.

UK Housing Stable, London Faltering

UK house price growth remained stable in February, according to the latest residential markets survey from the Royal Institute of Chartered Surveyors (RICS). RICS reported that its house price balance held at +24 for February, slightly higher than economists' forecast of +23. Meanwhile, transaction volumes and new enquiries were unchanged on the month, marking the third successive static month for transaction volumes, while new enquiries have largely stood still since November. However, the report showed that more vendors generally expect house prices to rise over the coming 12 months than in January.

Prices in London fell once more, marking a 12th consecutive month of declining prices. What's more, the fall in prices was below even the 3-month average for the region, while price expectations for the next 3 months don't look much better for the capital. As we have been saying for a while now, we believe that a slowdown and perhaps even reversal in the London property market is likely, particularly as more effects of Brexit start to come through. And, it appears as though this is beginning to feed through as sustained trends in the data.

It should be noted that, while prices did fall, both sales and enquiries actually went up in the capital. Similarly, sales expectations also went up in London, as well as across all the regions except East Anglia and the West Midlands. We find the fact that prices and price expectations fell despite corresponding increases in sales and sales expectations in London interesting. As we have mentioned in these pages many times over the past few months, the high-end of the London property market is particularly vulnerable to Brexit, as wealthy foreign buyers become reluctant to hold property in the UK. It's possible that this effect is what is dampening prices across the city, despite the fact that sales are going strong.

As we have noted before, we think that the London property market will continue to lag behind the regions in the short to near term, particularly as exporters in the regions begin to benefit from the fall in £-sterling. This will be especially true if global growth continues to surge ahead as it has been recently, upping demand for exports from the UK, which should feed through into wage increases in the regions relative to the capital. Meanwhile, real wages in London are likely to suffer more from the fall in £-sterling and the associated increase in inflation. Combined with the aforementioned factor of decreased foreign investment, this means that the London property market will likely fail to regain the steam it had a year ago.

Snap Inc: The hottest IPO turns lukewarm as investors consider the future of advertising

Last Thursday, investors saw the arrival of Snap Inc's \$3.4 billion Initial Public Offering (IPO). Its IPO was billed as one of the hottest in the past three years, giving the company a current market value (number of shares x share price) of \$26.3 billion, which puts it close to the value of cereal maker Kellogg's.

Despite the initial enthusiasm, Snap's shares quickly fell back after equity analysts failed to join the party, on concerns over the company's punchy valuation, slowing user metrics and profitability.

We also think there was a deeper examination of how Snap's 'selfie' smartphone application (app) can generate revenue and how the company fits into the rapidly changing world of the advertising market – an area where most of the new big tech firms like Google (Alphabet Inc) and Facebook really generate their profits.



Snap's offering was priced at \$17 a share, but the price opened up 41% higher last Thursday at \$24 and later traded up to close to \$29 a share. However, since then, Snap's share price has since retreated nearly 10%, after analysts did not seem to be overly impressed with the company's prospects and a powerful investor group pushed for Snap to be excluded from indices.

In addition to this, traders thought they had found an interesting target in which to profit from any falls in Snap's share price by selling short. Research firm S3 Partners said that short interest in Snap had reached \$300 million on Monday, opening up the potential for further volatility in the share price. Essentially, short sellers borrow shares to sell them later on, but sellers were paying borrowing costs from anywhere between 15% and 40% in order to sell Snap's shares short.

So far, just seven analysts have initiated coverage of the stock and none have issued a "Buy" rating. Of that seven, five currently rate the stock as "Sell", while the other two have a "Hold" or "Neutral" rating. The average price target of those seven analysts is just \$16.80 a share or some 26% below the current share price, according to data on Bloomberg.

The general consensus among analysts is that Snap is a promising early-stage business, with an active user base of younger people that advertisers can often find hard to reach through more traditional methods. The over-arching view is that investors in Snap could be exposing themselves

to competition from much larger and well-financed companies like Google and Facebook who could essentially copy Snap's selfie messaging features, such as Snapchat, quickly.

The problem for investors in Snap is that the company is currently loss-making and its user base of 158 million per day has grown slowly and is lower than Instagram's 300 million and Facebook's 1.2 billion daily active users. Snap also collects less user data, which users might be happy with, but could be less attractive to advertisers who have become accustomed to rapid analysis of the effectiveness of their campaigns or adverts.

Additionally, the Council of Institutional Investors have reportedly approached index providers to persuade them to reject companies which issue non-voting shares as they "deny shareholders any voice in the company". If Snap was included in indices, then index tracking funds would need to buy their shares in order to replicate the corresponding index.

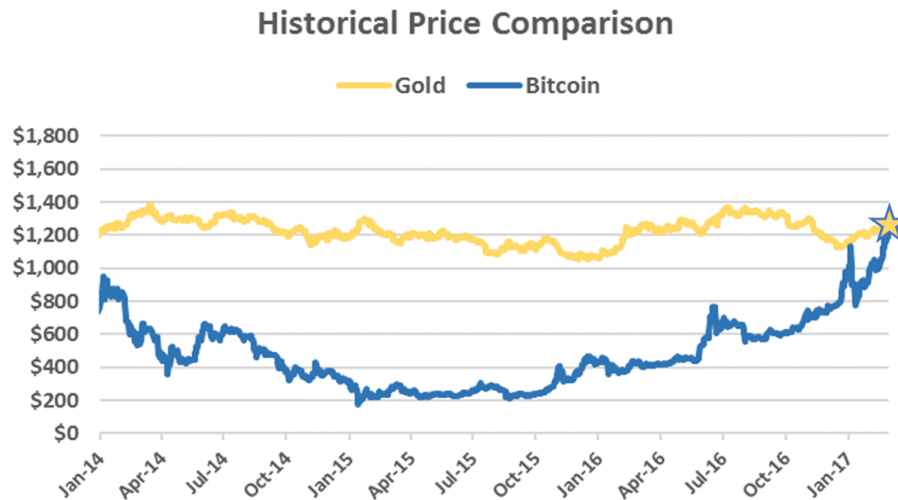
The arrival of Snap on the scene brought with it the prospect that a new innovative firm could attempt to break the online advertising duopoly of Google and Facebook, which have a combined market share of 57% of the digital advertising market last year.

The evolution of advertising has gone from roadside billboards to radio, to TV, newspapers, and finally the internet. The introduction of app-capable smartphones gave advertisers the ability to put ads in someone's pocket, but Snapchat hopes to be able to use the user's own face as an advertising medium through the use of "lenses" or filters that apply pictures on top of a selfie picture.

Analysts think that Snap will need to be continually innovative to capture market share, and teams from the company are working with advertisers to create new digital advertising methods. Advertisers may be wondering how these new digital methods fit into their strategies and may prefer the comfort of using larger platforms like Facebook and Google, safe in the knowledge that they are likely to reach a bigger audience.

Advertising continues to evolve and new entrants like Snap think they can tap into a growing market and get brands to adapt to the rapid changes to reach the elusive younger demographic. For now, the experience of Twitter and its inability to capitalise on its early position to break into the ad market could play on the minds of investors for some time until more clarity arises.

Bitcoin more valuable than gold?



Source: BBC

For the first time in its short history, the US\$ price of a single Bitcoin surpassed the price of a troy ounce (31.1g) of gold, with the digital currency topping \$1,238.11 per 'coin' as the precious metal traded at \$1,237.73. The apparent trigger for Bitcoin's recent surge higher (in addition to capital flows from China) seems to be the looming decision by the US SEC (Securities and Exchange Commission) to approve the first ever Bitcoin ETF (Exchange Traded Fund). The odds of a yes or no in the next few weeks appear pretty even at the moment. A Bitcoin ETF could make it much easier for some investors to access the digital currency and improve liquidity.

In the event of a positive ruling, traders have speculated that Bitcoin prices could increase further and reach \$2,000, according to PwC; \$2,100, according to Saxo Bank; or potentially even higher, as the digital currency attracts investor attention.

Should a negative ruling arise, then the price could fall back initially to technical levels (\$1,110 is the 200-day moving average), around where it trades today. A break of this level could trigger a further sell-off if we see the People's Bank of China (PBoC) continue to crackdown on Bitcoin, on fears they are being used to bypass capital controls.

Like gold and silver, Bitcoin was initially warmly welcomed by anti-establishment and anti-globalist figures for its decentralised nature and lack of overall control, on the idea it represented a true free market. It has since become more than its early beginnings, as the underlying technology (the blockchain) that powers Bitcoin has many practical uses beyond currencies.

Essentially, the blockchain could be thought of as a database that immediately records events or transactions in the case of Bitcoin. However, unlike traditional databases, it is fully distributed (shared) to all users on a network, which allows for much faster and cheaper verification of each event.

Obviously, this could bring vast cost savings for many different businesses. Some have even floated the idea of using the blockchain as the basis of a national patient database for the NHS (with the necessary data protection in place with a closed version of the technology).

The blockchain has been piloted in some small scale tests by banks and transport firms. This week, IBM and Danish shipping giant Maersk announced that they would use the technology to digitise, manage and track shipping transactions. IBM and Maersk intend to roll out this system (Hyperledger) to the ocean shipping industry this year, as experts believe that it could save the sector billions of dollars in costs.

Financial firms, like banks such as HSBC, Bank of America, JP Morgan and others, all appear to be joining forces to use the blockchain to ensure that customers can conduct transactions swiftly and securely through a closed version.

Last year, HSBC issued a report that said the blockchain could be “revolutionary” for over \$2 trillion worth of global trade that currently relies on paper for transaction reporting. Eliminating paper in trade could improve efficiency and make business much more transparent.

Though initially started as a research project, blockchain technology has since moved onto a digital currency and now has the potential of making global trade more efficient. Technology continues to provide increasing benefits for users and those early anti-globalisation forces pushed the blockchain technology forward. Now, the rest of the world appears to see benefits and, ironically, may end up enhancing globalisation in a positive way.

Does waning Chinese stimulus threaten global growth?

The following article is a summary of research conducted by our research partners Absolute Strategy Research. We agree with their analysis and as such thought it would be instructive to put this in our weekly update.

China appears to have slipped down the list of investors’ concerns. We think it may rise back up, as a number of policies that engendered stability are reversing.

As economic activity has stabilised, government promotion of economic stability has taken precedence over growth support. Five areas demand close scrutiny. Although Lunar New Year makes Chinese monthly statistics difficult to interpret (Jan-17 had five fewer selling days vs Jan-16), these areas may have begun trends which pose risks to growth within China and beyond.

1. Government spending and its consequences (especially car sales)

Government spending grew strongly in late 2015, widening the fiscal deficit. That support is now waning,

Car sales strength was a major outcome of the government’s stimulus. The 10% sales tax on smaller-engine vehicles in October 2015 was halved, and sales grew by 20% over the next 12 months.

This January, the tax went from 5% to 7.5%, coinciding with a 15% sales fall from December’s level. Even with the sales-day caveat above, growth is unlikely to return to last year’s rates. Industry analysts expect only +3% this year, which could take half a point off GDP growth.

2. Deteriorating monetary dynamics

The government’s shift in bias is also evident in monetary policy.

The People's Bank of China (PBoC) announced a 'prudent and neutral' stance (from just 'prudent'), and a small hike in key interest rates; +0.1% in money market rates, +0.25% in "repo rates". In turn, longer maturity yields have risen 1% from Autumn lows.

"Credit impulse", the rate of change in credit relative to GDP, is more closely related to the economic cycle than plain credit growth (January's record borrowing levels were probably a consequence of centrally-defined quotas allowances).

This "impulse" has turned down over the last six months, as has M1 money supply. If nominal activity follows monetary trends in a typical manner, growth could start to slow in the second half of 2017.

3. Construction & real estate

Non-monetary administrative controls were introduced across several provinces and cities in the third quarter of last year, and have already resulted in a 20-25% decline in total real estate transactions.

In addition, these industries have more financial leverage than other parts of the economy, making them interest-rate-sensitive (according to Reserve Bank of Australia research), while mortgage lending has led credit growth, magnifying that sensitivity.

According to the World Input-Output Tables, construction investment directly accounts for over a quarter of Chinese GDP. We think other linkages mean it may be closer to a third (consumption of real estate services alone accounts for another 3%). For instance, local governments' finances might take a hit, as land sales represent a significant source of their revenues. And, if property sales slow, real estate developers might once again find themselves with an excess of unsold inventory, putting pressure on their cash flows and debt falling due.

4. Corporate bond refinancing

Questions about credit risk are resurfacing— especially if moderating nominal GDP growth slows corporate profit growth.

Net issuance of corporate bonds has turned negative over the last two months – the first time this has occurred as rates have risen. Regulators are adding to this pressure, reinforcing the clampdown on leverage.

Companies face a growing value of bonds falling due over the coming year. Gross issuance started to pick up after the global financial crisis, around 8 years ago (Chinese corporate bonds have an average maturity of 7½ years).

Defaults have been limited but, with the authorities keen to reduce moral hazard, defaults have crept higher. According to Bloomberg, 29 corporate bonds defaulted last year, up from seven in 2015.

5. The shadow banking sector

Any problems in the corporate bond market could have implications for China's 'shadow banking' sector – i.e. the off-balance sheet vehicles that banks have used to circumvent regulations and various other informal means of extending credit. Wealth management products (WMPs), a

particularly prominent part of this sector, hold 56% of their total assets in domestically issued bonds and reportedly own over half of all corporate bonds issued onshore.

More generally, if some kind of financial tremor was to occur, this is the most likely candidate for its epicentre. These are leveraged vehicles that transform risky, illiquid and long-term assets into supposedly-riskless, liquid, short-term claims. They have also grown rapidly, with the PBoC reporting a 30% increase in the value of WMPs outstanding in 2016, to RMB26tn or US\$3.8tn. Some smaller and rural banks have been particularly aggressive users of these vehicles.

Regulators are clearly aware of the risk that bond losses lead to cash shortages, redemption failures and further fire sales of assets – hence the recent crackdown. But, if this proves successful, it could result in a further tightening of monetary conditions and reinforce any slowdown.

Conclusion

Our Chinese Activity Tracker suggests that, rather than flat-lining at around 6½% YoY for the last 12 months as the official numbers indicate, Chinese GDP growth has probably picked up from around 5% a year ago to something like 8% now. This pick-up has also been broad based across sectors of the economy.

We think this helps make sense of developments at the global level. If one overlays the rise in Chinese inflation on top of these growth numbers, the turnaround in nominal GDP growth is likely to have been dramatic. It has echoes of the post-financial crisis period, when a significant credit-driven stimulus in China made a major contribution to the recovery in global growth. We should not underestimate how important China has been in driving the sense of ‘reflation’ in the global economy.

But, just as the 2009-10 economic recovery gave way to a period of more subdued growth once China’s stimulus started to be reined in, a similar relapse cannot be ruled out this time around. There are several indications that policymakers’ priorities have shifted away from supporting growth at all costs towards controlling risks and ensuring stability. This bias could be reinforced through the combination of rate increases from the Federal Reserve and a White House that is carefully watching over any currency weakness against the dollar.

The policy support that Chinese authorities have provided to the economy over the last year is now fading and could ebb further through the course of this year. As a result, we expect some moderation in growth to occur in the second half of the year. Our baseline view is one of a modest slowdown. But if the economic reform process is like ‘crossing the river by feeling for stones’, some kind of slip-up cannot be completely ruled out.

By Peter Thal Larsen

Prospect Theory: the problem of ‘perceived performance’

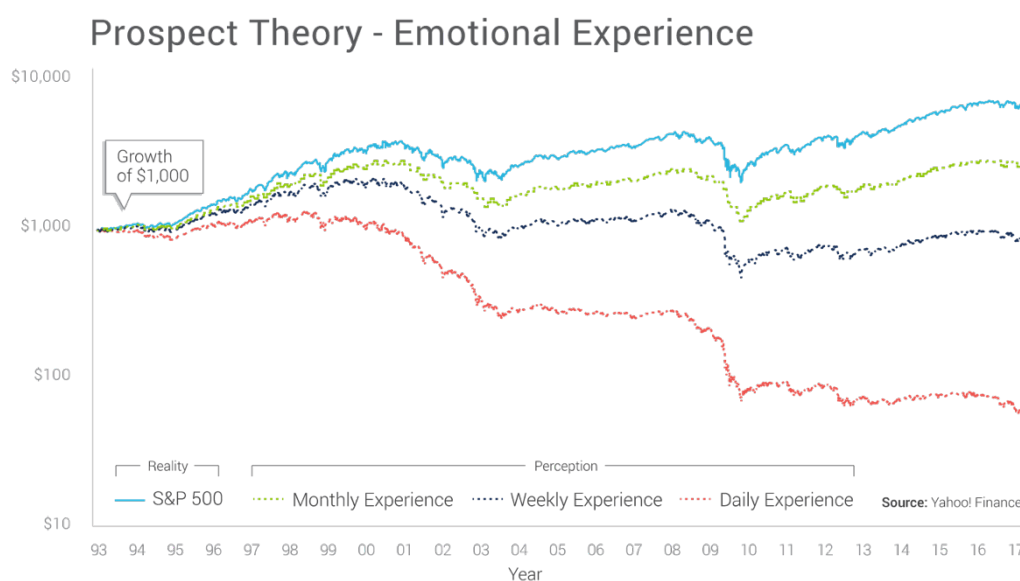
A few weeks ago, we ran an article detailing the underperformance of private investors relative to wider market indices and the reasons behind it. As noted in that piece, a quantitative study last year by research firm DALBAR showed a huge discrepancy between the returns of the average private investor and the benchmark S&P 500 index over the past 30 years. This difference in returns was not generated by underperformance from the active managers, but rather by psychological factors affecting investors, which caused them to move money in and out of their

portfolios at inopportune times. Given the recent interest in this topic by our research partners Newfound Research, as well as a blog post last week from Longboard Asset Management entitled 'A Watched Portfolio Never Performs', we thought it might be useful to revisit it and explain why this happens.

It seems an almost inescapable fact of human nature that we are prey to behavioural biases. And, on the whole, these biases usually work incredibly well. But, there are, of course, cases where they don't, and nowhere does this fact become more salient than in investment.

As we discussed some weeks ago, loss aversion and the 'fear and greed' investment mentality inevitably lead to underperformance, as one's perception of their investments begins to dominate over the actual reality. Central to this idea is the notion that someone's perception of their portfolio's performance – how they think it's doing – can offer differ quite radically from its actual performance. Roughly, this is where prospect theory – a seminal theory in behavioural economics – gets one of its starting assumptions: that losses are felt more keenly than gains.

According to the theory, losses come with over two times the amount of emotional impact of gains, meaning that investors' perceptions of their own investments becomes distorted by the emotional significance of those losses. Using this theory, Longboard calculate the relative emotional experience of investors in the S&P 500 in terms of how often they check the status of their portfolio, as shown by the graph below.

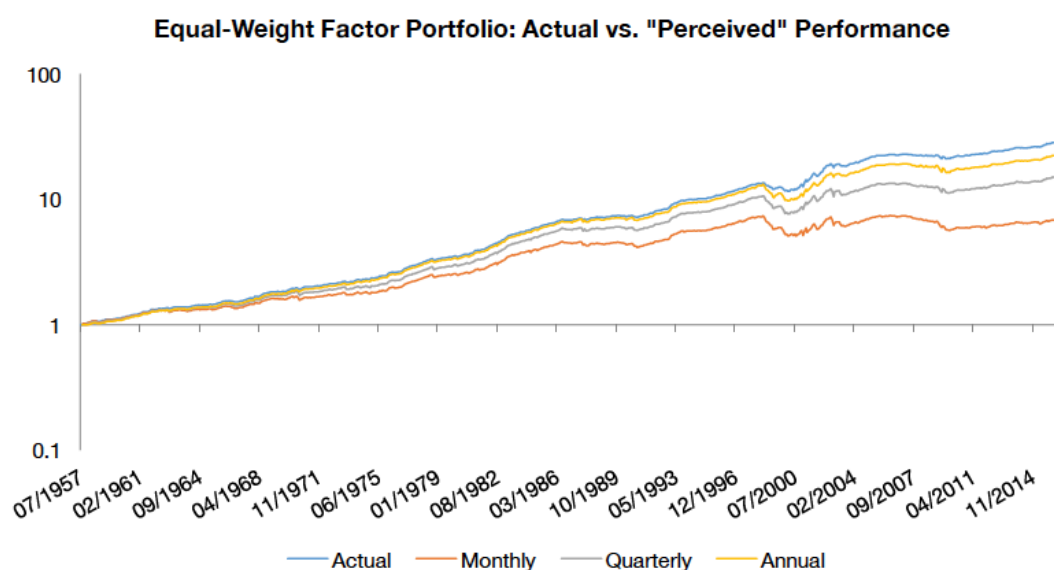


As you can see, through the fact that losses are amplified in our minds, investors who check their portfolio daily are left with a sense that their investments have declined over the years shown, despite the fact that the S&P grew over 700% through the period. And, as Newfound Research point out, the sensitivity to losses doesn't only refer to those absolute losses in value, but can also be thought to include *relative* losses in a portfolio – ie a portfolio's underperformance relative to a benchmark. This means that investors who keep up to date on the value of their portfolio experience its performance as worse than it in fact is – be that worse in the absolute sense or worse relative to the benchmark.

On average, when investors act on these perceptions, the result is a genuine underperformance. This is because the psychological factors underlying one's decision-making have a tendency to lead to a 'buy high, sell low' pattern of behaviour, as overwhelmingly shown by the aforementioned DALBAR study.

So, how do we avoid these psychological pitfalls? We believe the two most important factors in getting around this emotional trap are choosing a portfolio that is appropriate for your risk appetite, and having a genuinely diversified portfolio. Having a foolproof investment strategy is all for nothing if you don't stick to it and, in this sense, any risk-profiled portfolio can only be as good as your conviction to maintain it. As the above has shown, it's little use an investor being in an equity-based portfolio – on the hope that the higher risk will generate higher long-term returns – if they take their money out when losses start to mount. Settling on an appropriate risk level and sticking to it, then, is clearly of tantamount importance.

As also shown by Newfound Research in the graph below, diversification is also key to warding off the adverse emotional experience of investors. Diversifying a portfolio means it isn't as sensitive to short-term fluctuations from individual assets or sectors, meaning losses aren't as pronounced. Given the amplified emotional nature of losses compared to gains, the benefits of a well-diversified portfolio are evident. This is why we believe the Tatton investment ethos – avoiding asset classes that we believe are overvalued, rather than chasing returns by trying to guess 'the next big thing' – is effective.



As well as these however, we also believe the above highlights the downsides to staying constantly updated on one's investments – 'A Watched Portfolio Never Performs', as Longboard point out. Of course, with modern technology, staying genuinely oblivious to the performance of your investments is virtually impossible, but the point still remains that checking on a portfolio too regularly can often defeat the point – it is, after all, a long-term investment, not determined by any particular day to day movements but rather the aggregate long-term ones.

As far as practical matters are concerned, it is worth pointing out that, with current equity valuations as high as they are, these considerations are particularly relevant. When prices are high, the risk premium – the amount of risk investors have to subject themselves to in order to generate reward

– inevitably rises. All of this might make one wonder why it is that they should remain in the market at current levels, given the risk-aversion previously discussed. However, we believe it is important to note that, with bond yields still at historic lows (despite the increase over the past few months), the high valuations of equities are not enough to persuade us into an equity underweight position. Effectively, regardless of the increase in risk-premium over the past few months, equities still remain, in our view, worth holding relative to bonds.

As ever, we will monitor this situation closely, and take appropriate action should equities begin to become overvalued. In the meantime, however, we believe this discussion highlights the importance of not becoming an active manager in one's own investments, as concentrating on your own portfolio's performance and moving money in and out accordingly often devolves into a case of trying to second-guess the market – an extremely risky strategy.

PERSONAL FINANCE COMPASS

Global Equity Markets

MARKET	CLOSE	% 1 WEEK	1 W	TECHNICAL
FTSE 100	7350.2	-0.3	-24.1	➔
FTSE 250	18963.1	0.4	80.3	➔
FTSE AS	3999.7	-0.2	-7.8	➔
FTSE Small	5356.3	0.0	-0.5	➔
CAC	4997.0	0.0	1.9	➔
DAX	11960.5	-0.6	-66.9	➔
Dow	20884.0	-0.6	-121.8	➔
S&P 500	2369.6	-0.6	-13.5	➔
Nasdaq	5384.5	0.2	11.0	➔
Nikkei	19604.6	0.7	135.4	➔

Top 5 Gainers

COMPANY	%	COMPANY	%
INTERTEK GROUP	8.0	ANGLO AMERICAN	-10.4
CAPITA	6.3	BHP BILLITON	-8.7
AVIVA	6.3	GLENCORE	-8.2
WORLDPAY GROUP	5.9	RANDGOLD RESOUR	-6.3
TAYLOR WIMPEY	5.2	RIO TINTO	-4.8

Sovereign Default Risk

DEVELOPED	CDS	DEVELOPING	CDS
UK	31.4	Brazil	236.2
US	26.9	Russia	172.2
France	63.7	China	91.1
Germany	19.6	South Korea	48.3
Japan	30.4	South Africa	191.0

Currencies

PRICE	LAST	%1W	CMDTY	LAST	%1W
USD/GBP	1.22	-1.08	OIL	51.9	-7.2
USD/EUR	1.07	0.39	GOLD	1199.5	-2.9
JPY/USD	115.10	-0.92	SILVER	16.9	-5.9
GBP/EUR	0.88	-1.58	COPPER	258.6	-4.1
JPY/GBP	6.91	-0.18	ALUMIN	1868.0	-2.3

Commodities

Fixed Income

GOVT BOND	%YIELD	% 1W	1 W
UK 10-Yr	1.2	4.5	0.05
US 10-Yr	2.6	4.8	0.12
French 10-Yr	1.1	19.2	0.18
German 10-Yr	0.5	36.8	0.13
Japanese 10-Yr	0.1	14.1	0.01

UK Mortgage Rates

MORTGAGE BENCHMARK RATES	RATE %
Base Rate Tracker	2.3
2-yr Fixed Rate	1.4
3-yr Fixed Rate	1.7
5-yr Fixed Rate	2.2
Standard Variable	4.5
Nationwide Base Rate	2.25
Halifax Standard Variable	3.74

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For any questions, as always, please ask!

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The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel

